

## Summary of Current System

	Pillar 1	Pillar 2	Pillar 3
<b>Type:</b>	♦ Defined-benefit		♦ Defined-contribution or defined-benefit plans, depending on sponsor
<b>Participation:</b>	♦ Mandatory		♦ Voluntary
<b>Management:</b>	♦ Publicly-managed		♦ Privately-managed
<b>Financing:</b>	♦ PAYGO		♦ Fully-funded
<b>Coverage:</b>	♦ Salaried employees in industry, commerce and service sector		♦ Participating employees
<b>Eligibility:</b>	♦ Age 50 for women and age 55 for men, and fulfilled minimum requirements		♦ Age 50 for women and age 55 for men

## Challenges Facing Pension System

- ❑ Pension fund deficits
- ❑ Large informal economy
- ❑ Low compliance rates

## Summary of Current System

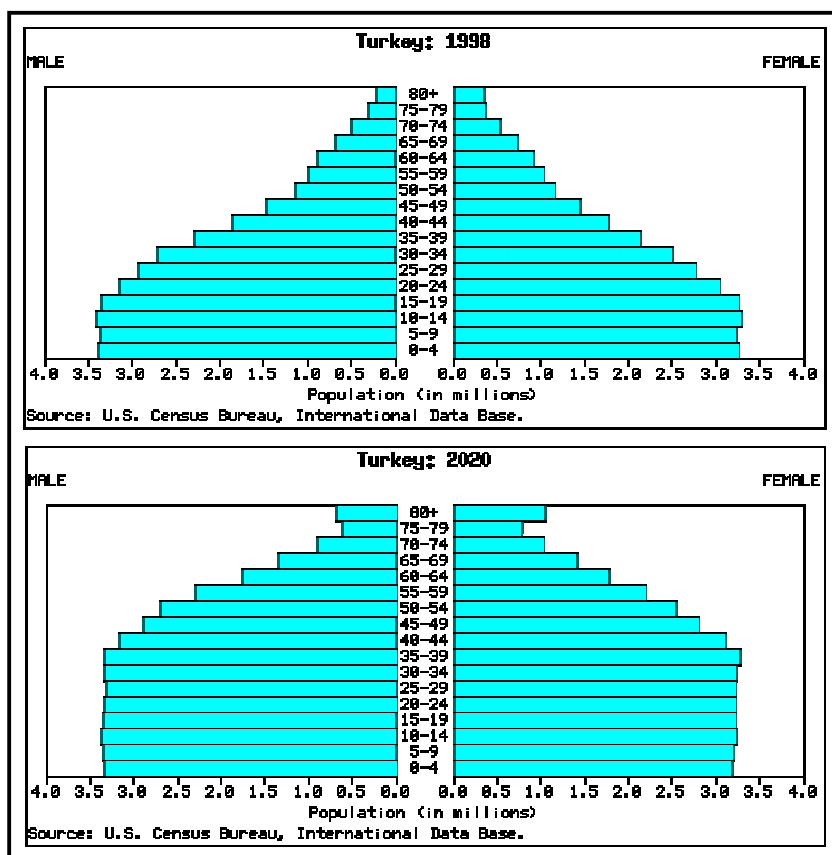
The Turkish social insurance system is comprised of three separate systems, covering different sectors of the economy. Workers in the formal, including salaried employees in industry, commerce and the service sectors, are covered by *Sosyal Sigortalar Kurumu (SSK)*. Civil servants are covered by *Emekli Scandigi*. Finally, the self-employed are covered by *Bag-Kur*. This state managed pension system is financed on a pay-as-you-go basis and provides defined benefits to qualified individuals.

Mandatory contributions to the system are made by both employers and employees. Employees contribute 14 percent of their earnings up to a monthly earnings ceiling (which is adjusted every three months). Employer contributions to the social security system are between 19.5 percent and 22.0 percent of the payroll, depending on risk classification.

Employees may qualify for old-age pension benefits under the following conditions. Generally, employees begin receiving benefits when the normal retirement age of 50 years for women and 55 years for men has been reached and they have at least 5,000 days of contribution, or 15 years of employment and 3,600 days of contribution. Employees may begin receiving pension benefits, regardless of age, if they have been

employed 25 years (for men) or 20 years (for women) and have at least 5,000 days of contribution.

Average pension benefits amount to 60 percent of average indexed earnings during the last five or seven years of employment. In cases of early retirement, the old-age pension benefit decreases by one percent per each 240 days of contribution below 5,000. For those opting for later retirement, pension benefits increase one percent per each 240 days of contribution in excess 5,000, up to 85 percent of average



SELECTED INDICATORS		
Demographic	Year	
	1998	2020
Total Population (in thousands)	64,567	85,643
Life Expectancy at Birth (Years)	72.82	79.71
Total Fertility Rate (Child Born per Woman)	2.47	2.03
Age Dependency Ratio (percent)	14.1	20.9
	1980-2000	2000-2020
Average Annual Rate of Population Growth (percent)	2.0	1.3

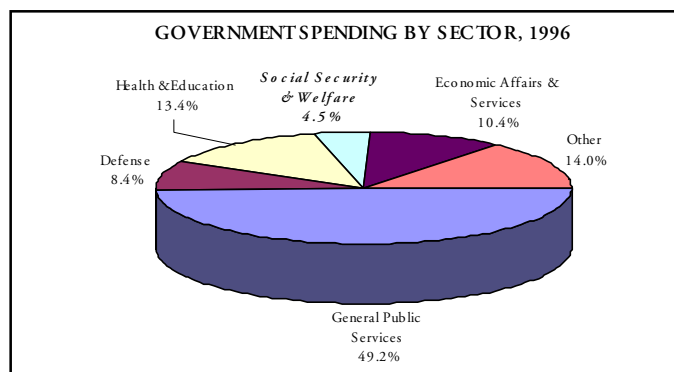
Source: U.S. Bureau of the Census. International Data Base.

Economic	1996
GNP (PPP in billions) <sup>1</sup>	379.9
GNP Average Annual Growth Rate, 1995-1996 (percent) <sup>1</sup>	6.8
GNP Per Capita (in PPP) <sup>1</sup>	6,060
Inflation Rate (percent) <sup>2</sup>	82.3
Labor Force Participation Rate (percent) <sup>3</sup>	46.8
Unemployment Rate (percent) <sup>3</sup>	5.8

Source: <sup>1</sup>World Bank; <sup>2</sup>IMF; <sup>3</sup>International Labour Office.

Pension	1997
System Dependency Ratio, 1996 (percent)	n/a
Employee Payroll Tax Contributions for Pensions (percent)	14.0
Employer Payroll Tax Contributions for Pensions (percent)	19.5 – 22.0
Public Pension Spending as % of Government Spending	n/a
Public Pension Spending as % of GDP, 1996 (percent)	n/a

Source: William M. Mercer.



Source: International Monetary Fund. Government Finance Statistics Yearbook, 1997.

earnings. In addition to the pension benefits described, Turkish pensioners receive a monthly flat rate social support supplement.

Private retirement plans are not prevalent in Turkey. Existing retirement plans, both defined-contribution and defined-benefit plans, are typically self-financed and provide lump-sum benefits.

## Challenges Facing Pension System

One of the major challenges of the Turkish social security system has been to control expenditures. Between 1995 and 1996, the deficit (measured as a percent of gross national product) increased from 1.1 percent to 2.0 percent. It was estimated that the social insurance fund shortfall could reach 5 percent of GNP by 2010. This situation was exacerbated by the

low contribution compliance rate. Collections decreased from 3.3 percent of GNP in 1995 to 3.0 percent in 1996. This was caused by individuals working in the informal economy to avoid the high contribution rates, weak enforcement standards (i.e., inadequate penalties for non-compliance) and inefficient administration systems (i.e., incomplete work histories and manual record-keeping).

Another factor that had contributed to the increase in pension expenditures was the increase in the number of individuals entering the system due to the relatively early retirement ages. In addition, the pension fund was burdened by large mandated social assistance payments in which no contributions are made.

## Pension Reform Efforts

According to the International Monetary Fund, the government will continue to move forward with pension reform efforts to alleviate the growing public deficit. Reform efforts under discussion include increasing the minimum retirement age and minimum contribution period, expanding the reference period for calculating pension benefits, and increasing the ceiling on wages subject to contributions. The government intends to request for parliamentary approval of an increase in the retirement age. The minimum retirement age will increase from 50 years to 57 years for women and from 55 years to 60 years for men. The minimum contribution period for new entrants into the pension system will increase to 7,200 days of contribution for women and 9,000 days of contribution for men.

### Pension Reform Efforts by Pillar

	Pillar 1	Pillar 2	Pillar 3
Papers issued on state of pension systems	✓		
Formulation of proposals	✓		
Development of draft legislation			
Introduction of legislation by parliament			
Review of legislation by parliament			
Passage of legislation by parliament			
Implementation of legislation			